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Definition of the Term ‘Fiduciary’; Conflict of Interest Rule—Retirement Investment Advice; Notice of proposed rulemaking and withdrawal of previous proposed rule.

Comment On: EBSA-2010-0050-0204

Definition of the Term Fiduciary; Conflict of Interest Rule- Retirement Investment Advice

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Comment on FR Doc # 2015-08831

Submitter Information

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General Comment

Dear Department of Labor Representative,

I am submitting this comment regarding the proposed regulation EBSA-2010-0050-0204. It is my understanding that the proposed regulation would prohibit the trading of options in an IRA, retirement account, or small-business pension plan. No doubt this action was proposed under the assumption that options trading is too risky for the average investor, especially with one's retirement savings. However, this assumption is manifestly false. When used properly and conservatively, options can actually decrease portfolio risk and provide regular income. I refer primarily to the selling of covered calls and cash-covered puts. Such transactions are no more risky than placing a limit order to buy or sell shares of a stock.

Two simple examples should suffice to prove that covered options are no more risky than limit orders. Suppose I own 500 shares of Microsoft, which I purchased for \$42. I would gladly sell them for \$46, garnering nearly a 10% profit. I could enter a limit order with my broker to sell 500 shares at \$46. Or, I could simply sell 5 contracts of the November \$46 call, currently bid at 90 cents. In the second scenario, I collect \$450 premium just for pledging to sell my shares at \$46, which is what I intended to do anyway. If the calls expire worthless, so much the better. I keep the \$450 premium and am free to sell another 5 contracts for a future expiration.

The same is true of cash-covered puts. If I wish to buy 500 shares of Microsoft at \$42, and I have the \$21,000 required, I can enter a limit order to do so. Or I could sell the November \$42 put, currently bid at \$1.12. If the puts are never exercised, I keep the \$560 premium. If the puts are exercised, I will own the stock at a reduced basis of \$40.88. This is an even more conservative position than if I had bought the stock with a limit order at \$42.

I have traded options profitably for more than 20 years. They can be used conservatively both to reduce portfolio risk and to provide regular income. Selling covered puts and calls is no more risky than limit orders, which most brokerages will allow even novice investors to use. To ban the trading of options in IRAs and retirement is unnecessarily restrictive. Private investors and pension account administrators should be allowed the latitude to

use these derivatives as part of a prudent and conservative investment plan. Please consider amending the proposed legislation to eliminate this needless restriction.

Sincerely

Lowell A. Beers